

**NORA SPRINGS-ROCK FALLS
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2005

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NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2004 Election)

Gary Dockum	President	2004
Troy Frank	Vice President	2005
Brad Shanks		2006
Lori Treloar		2006
Nancy Lund		2005

(After September, 2004 Election)

Gary Dockum	President	2007
Nancy Lund	Vice President	2005
Brad Shanks		2006
Lori Treloar		2006
Troy Frank		2005

SCHOOL OFFICIALS

Todd Lettow	Superintendent
Janice Rippen	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District, Nora Springs, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 9, 2005 on our consideration of Nora Springs-Rock Falls Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nora Springs-Rock Falls Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

August 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Nora Springs-Rock Falls Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,396,118 in fiscal 2004 to \$3,436,707 in fiscal 2005, while General Fund expenditures decreased from \$3,337,731 in fiscal year 2004 to \$3,336,371 in fiscal 2005. The District's General Fund balance increased from \$238,043 in fiscal 2004 to \$344,317 in fiscal 2005, a 45% increase.
- The District received \$41,657 in a federal Small Rural Schools Achievement Grant as part of the Rural Education Achievement Program.
- The District's Certified Enrollment dropped slightly from 427.1 students in September 2003 to 424.0 students in September 2004.
- The amount of local option sales tax collected increased from \$195,894 in fiscal 2004 to \$280,309 in fiscal 2005.
- Expenses increased less than one percent from FY2004 to FY2005. Although payroll increased due to pay raises, this was offset by careful monitoring of discretionary spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements and required supplementary information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Nora Springs-Rock Falls Community School District

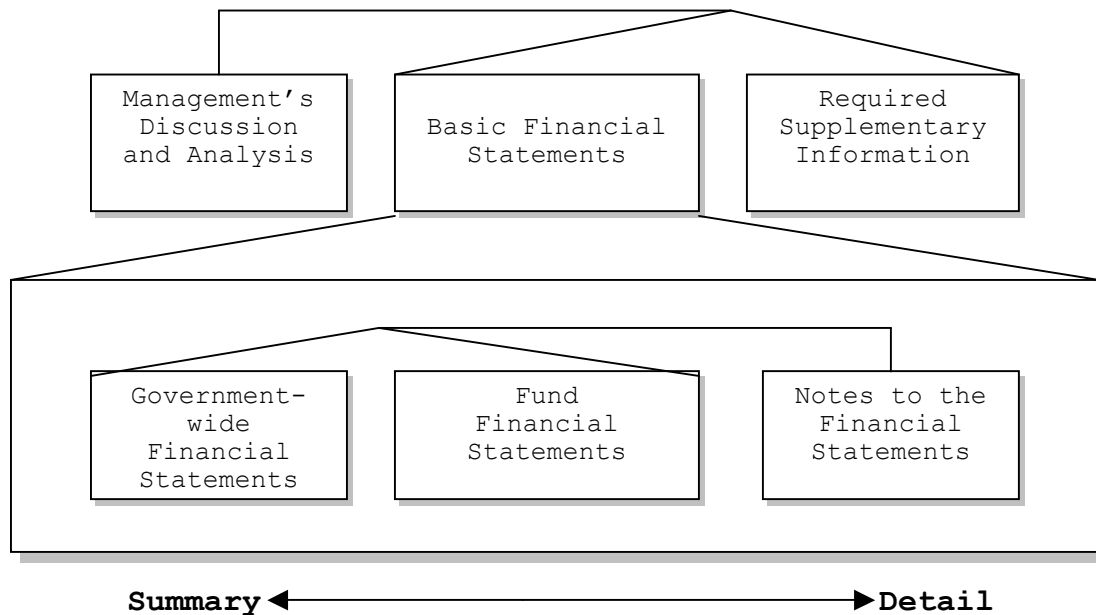


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The Government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two Government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects and Debt Service Fund. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, and administration. Most of these activities are funded with property taxes and state aid finance.

- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Child Care Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2005	2004	2005	2004	2005	2004	2004-05
	\$	\$	\$	\$	\$	\$	
Current assets	2,277	2,828	9	5	2,286	2,833	-19.31%
Capital assets	2,262	2,404	1	2	2,263	2,406	-5.94%
Total assets	4,539	5,232	10	7	4,549	5,239	-13.17%
Current liabilities	1,639	2,479	11	6	1,650	2,485	-33.60%
Non-current liabilities	685	800	-	-	685	800	-14.38%
Total liabilities	2,324	3,279	11	6	2,335	3,285	-28.92%
Net Assets							
Invested in capital assets, net of related debt	1,577	1,604	1	2	1,578	1,606	-1.74%
Restricted	269	97	-	-	269	97	177.32%
Unrestricted	369	252	(2)	(1)	367	251	46.22%
Total net assets	2,215	1,953	(1)	1	2,214	1,954	13.31%

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	363	115	478
Operating grants, contributions and restricted interest	510	68	578
General revenues:			
Property tax	1,405	-	1,405
Local option sales tax	280	-	280
Unrestricted state grants	1,506	-	1,506
Unrestricted investment earnings	7	-	7
Other	33	-	138
Total revenues	<u>4,104</u>	<u>183</u>	<u>4,287</u>
Program expenses:			
Governmental activities:			
Instruction	2,399	-	2,399
Support Services	1,005	-	1,005
Non-instructional programs	-	184	184
Other expenses	438	-	438
Total expenses	<u>3,842</u>	<u>184</u>	<u>4,026</u>
Change in net assets	<u>262</u>	<u>(1)</u>	<u>261</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 85% of the total expenses.

GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$4,104,286 and expenses were \$3,842,509.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	2,399	1,663
Support Services	1,005	995
Other expenses	<u>438</u>	<u>312</u>
Totals	<u>3,842</u>	<u>2,970</u>

- The cost financed by users of the District's programs was \$363,107.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$394,804.
- The net cost of governmental activities was financed with \$1,405,139 in property tax, \$1,506,043 in state foundation aid, and \$7,208 in interest income.

PROPRIETARY-TYPE FUNDS

Revenues for the District's School Nutrition Fund were \$170,797 and expenses were \$167,338. The revenues include charges for services, contributions, and federal and state reimbursements. A Child Care program was started during Fiscal Year 2003. It is hoped to be an additional attraction to showcase the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Nora Springs-Rock Falls Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$2,214,808, a 13 percent increase over last year's ending fund balance of \$1,953,031.

GOVERNMENTAL FUND HIGHLIGHTS

Several factors contributed to the increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- Preschool tuition increased by over \$13,000.
- Expenditures in the General Fund decreased by \$1,360 from the prior year.
- Funding from Local Option Sales Tax accounted for over \$280,000 of additional funds during fiscal Year 2005. Expenses from this fund were primarily for remodeling projects. The increase in the Capital Projects Fund accounted for the majority of the total increase in governmental fund balances.

PROPRIETARY FUND HIGHLIGHTS

School Nutrition Fund net assets held steady. The Child Care program has been instituted and will hopefully prove an asset to the District.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

CAPITAL ASSETS

The District has invested more than \$5 million by the end of fiscal year 2005 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$175,000.

LONG-TERM DEBT

The District had \$685,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of \$115,000 from the previous year.

The District had total outstanding bonded indebtedness on June 30, 2005, of \$685,000. The principal and interest on the bonds will be paid in full by June 1, 2012. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds.

The District's Capital Loan Notes were paid off in fiscal 2005.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The voters of all three counties have approved the School Infrastructure Local Option sales tax, which will provide funds for property tax reduction and school infrastructure projects affecting the Physical Plant and Equipment Levy Fund, Capital Projects, and Debt Service Funds of the District. This will allow improvement of facilities and equipment without raising property taxes.
- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10 year period. The District will have to continue to carefully monitor its spending in order to maintain adequate funding and programs.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Lettow, Superintendent, Nora Springs-Rock Falls Community School District, 509 N Iowa, Nora Springs, IA 50458.

Basic Financial Statements

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	581,184	6,792	587,976
ISCAP investments	188,864	-	188,864
Receivables:			
Property tax:			
Current year	23,387	-	23,387
Succeeding year	1,418,547	-	1,418,547
Due from other governments	52,899	-	52,899
Other receivables	1,200	-	1,200
Interfund receivables	6,381	-	6,381
ISCAP accrued interest receivable	4,111		4,111
Inventories	-	2,093	2,093
Capital assets, net of accumulated depreciation (note 3)	2,261,938	1,327	2,263,265
Total assets	4,538,511	10,212	4,548,723
Liabilities:			
Accounts payable	20,525	-	20,525
Accrued salary and benefits	8,518	4,615	13,133
Accrued interest payable	3,077	-	3,077
Interfund payable	-	6,381	6,381
ISCAP warrants payable (note 9)	188,000	-	188,000
ISCAP accrued interest payable (note 9)	36	-	36
Deferred revenue:			
Succeeding year property tax	1,418,547	-	1,418,547
Long term liabilities:			
Portion due within one year:			
Bonds payable	85,000	-	85,000
Portion due after one year:			
Bonds payable	600,000	-	600,000
Total liabilities	2,323,703	10,996	2,334,699
Net assets:			
Invested in capital assets, net of related debt	1,576,938	1,327	1,578,265
Restricted for:			
Management levy	36,670	-	36,670
Physical plant and equipment levy	19,733	-	19,733
Debt service	9,859	-	9,859
Capital projects	202,566	-	202,566
Unrestricted	369,042	(2,111)	366,931
Total net assets	2,214,808	(784)	2,214,024

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues					
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental	Business-Type	Total
Expenses	Service		Activities	Activities		
\$	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	1,672,834	328,153	157,547	(1,187,134)	-	(1,187,134)
Special instruction	424,993	34,466	108,112	(282,415)	-	(282,415)
Other instruction	300,734	-	107,446	(193,288)	-	(193,288)
	<u>2,398,561</u>	<u>362,619</u>	<u>373,105</u>	<u>(1,662,837)</u>	<u>-</u>	<u>(1,662,837)</u>
Support services:						
Student services	117,974	-	-	(117,974)	-	(117,974)
Instructional staff services	44,114	-	-	(44,114)	-	(44,114)
Administration services	368,287	-	-	(368,287)	-	(368,287)
Operation and maintenance of plant services	299,463	-	6,732	(292,731)	-	(292,731)
Transportation services	175,630	488	3,400	(171,742)	-	(171,742)
	<u>1,005,468</u>	<u>488</u>	<u>10,132</u>	<u>(994,848)</u>	<u>-</u>	<u>(994,848)</u>
Other expenditures:						
Facilities acquisition and construction	121,346	-	398	(120,948)	-	(120,948)
Long-term debt interest	41,444	-	1,821	(39,623)	-	(39,623)
Long-term debt services	300	-	-	(300)	-	(300)
AEA flowthrough	124,135	-	124,135	-	-	-
Depreciation (unallocated)*	151,255	-	-	(151,255)	-	(151,255)
	<u>438,480</u>	<u>-</u>	<u>126,354</u>	<u>(312,126)</u>	<u>-</u>	<u>(312,126)</u>
Total governmental activities	3,842,509	363,107	509,591	(2,969,811)	-	(2,969,811)

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type activities:					
Non-instructional programs					
Nutrition services	167,338	103,137	67,660	-	3,459
Community education	16,600	12,096	-	(4,504)	(4,504)
Total	<u>4,026,447</u>	<u>478,340</u>	<u>577,251</u>	<u>(2,969,811)</u>	<u>(2,970,856)</u>
General revenues:					
Property tax levied for:					
General purposes			1,138,842	-	1,138,842
Management fund			60,374	-	60,374
Debt service			119,415	-	119,415
Capital outlay			86,508	-	86,508
Local option sales taxes			280,309	-	280,309
Unrestricted state grants			1,506,043	-	1,506,043
Unrestricted investment earnings			7,208	-	7,208
Other			32,889	-	32,889
Total general revenue			<u>3,231,588</u>	<u>-</u>	<u>3,231,588</u>
Change in net assets			261,777	(1,045)	260,732
Net assets beginning of year			<u>1,953,031</u>	<u>261</u>	<u>1,953,292</u>
Net assets end of year			<u>2,214,808</u>	<u>(784)</u>	<u>2,214,024</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Non-major	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	331,159	7,923	160,299	81,803	581,184
ISCAP investments	188,864	-	-	-	188,864
Receivables:					
Property tax:					
Current year	19,049	1,936	-	2,402	23,387
Succeeding year	1,132,808	122,220	-	163,519	1,418,547
Due from other governments	10,632	-	42,267	-	52,899
Other receivables	1,200	-	-	-	1,200
Interfund receivable	6,381	-	-	-	6,381
ISCAP accrued interest receivable	4,111	-	-	-	4,111
Total assets	<u>1,694,204</u>	<u>132,079</u>	<u>202,566</u>	<u>247,724</u>	<u>2,276,573</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	20,525	-	-	-	20,525
Accrued salary and benefits	8,518	-	-	-	8,518
ISCAP warrants payable (note 9)	188,000	-	-	-	188,000
ISCAP accrued interest payable (note 9)	36	-	-	-	36
Deferred revenue:					
Succeeding year property tax	1,132,808	122,220	-	163,519	1,418,547
Total liabilities	<u>1,349,887</u>	<u>122,220</u>	<u>-</u>	<u>163,519</u>	<u>1,635,626</u>
Fund balances:					
Reserved for debt service	-	9,859	-	-	9,859
Reserved for capital projects	-	-	202,566	-	202,566
Unreserved	344,317	-	-	84,205	428,522
Total fund equity and other credits	<u>344,317</u>	<u>9,859</u>	<u>202,566</u>	<u>84,205</u>	<u>640,947</u>
Total liabilities and fund balances	<u>1,694,204</u>	<u>132,079</u>	<u>202,566</u>	<u>247,724</u>	<u>2,276,573</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (Exhibit C)	\$ 640,947
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,261,938
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,077)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(685,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 2,214,808</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,138,842	119,415	280,309	146,882	1,685,448
Tuition	345,797	-	-	-	345,797
Other	51,469	1,710	398	112,679	166,256
State sources	1,790,829	111	-	137	1,791,077
Federal sources	109,770	-	-	-	109,770
Total revenues	<u>3,436,707</u>	<u>121,236</u>	<u>280,707</u>	<u>259,698</u>	<u>4,098,348</u>
Expenditures:					
Instruction:					
Regular instruction	1,672,834	-	-	-	1,672,834
Special instruction	424,993	-	-	-	424,993
Other instruction	205,331	-	-	95,403	300,734
	<u>2,303,158</u>	<u>-</u>	<u>-</u>	<u>95,403</u>	<u>2,398,561</u>
Support services:					
Student services	117,974	-	-	-	117,974
Instructional staff services	28,249	-	-	15,865	44,114
Administration services	368,287	-	-	-	368,287
Operation and maintenance of plant services	245,321	-	-	89,586	334,907
Transportation services	149,247	-	-	-	149,247
	<u>909,078</u>	<u>-</u>	<u>-</u>	<u>105,451</u>	<u>1,014,529</u>
Other expenditures:					
Facilities acquisition and construction	-	-	118,640	2,706	121,346
Long-term debt:					
Principal	-	115,000	-	-	115,000
Interest	-	41,854	-	-	41,854
Services	-	300	-	-	300
AEA flowthrough	124,135	-	-	-	124,135
	<u>124,135</u>	<u>157,154</u>	<u>118,640</u>	<u>2,706</u>	<u>402,635</u>
Total expenditures	<u>3,336,371</u>	<u>157,154</u>	<u>118,640</u>	<u>203,560</u>	<u>3,815,725</u>

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	100,336	(35,918)	162,067	56,138	282,623
Other financing sources (uses):					
Sale of equipment and materials	5,938	-	-	-	5,938
Operating transfers in	-	35,854	-	-	35,854
Operating transfers out	-	-	-	(35,854)	(35,854)
	5,938	35,854	-	(35,854)	5,938
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	106,274	(64)	162,067	20,284	288,561
Fund balances beginning of year	238,043	9,923	40,499	63,921	352,386
Fund balances end of year	344,317	9,859	202,566	84,205	640,947

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances - total governmental funds (Exhibit E) \$ 288,561

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	35,444	
Depreciation expense	<u>(177,638)</u>	(142,194)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	115,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>410</u>
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Change in net assets of governmental activities (Exhibit B) \$ 261,777

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets

Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Child Care	Total
	\$	\$	
Assets			
Cash and pooled investments	6,792	-	6,792
Inventories	2,093	-	2,093
Capital assets, net of accumulated depreciation	1,327	-	1,327
Total assets	<u>10,212</u>	<u>-</u>	<u>10,212</u>
Liabilities			
Interfund payable	-	6,381	6,381
Accrued salary and benefits	4,615	-	4,615
Total liabilities	<u>4,615</u>	<u>6,381</u>	<u>10,996</u>
Net assets			
Invested in capital assets, net of related debt	1,327	-	1,327
Unrestricted	4,270	(6,381)	(2,111)
Total net assets	<u>5,597</u>	<u>(6,381)</u>	<u>(784)</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Child Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	103,137	12,096	115,233
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	53,048	-	53,048
Benefits	12,176	-	12,176
Services	1,929	-	1,929
Supplies	95,661	-	95,661
Property	4,328	-	4,328
Depreciation	196	-	196
	167,338	-	167,338
Other enterprise operations:			
Salaries	-	14,674	14,674
Benefits	-	1,926	1,926
	-	16,600	16,600
Total operating expenses	167,338	16,600	183,938
Operating (loss)	(64,201)	(4,504)	(68,705)
Non-operating revenues:			
Interest on investments	117	-	117
State sources	2,045	-	2,045
Federal sources	65,498	-	65,498
	67,660	-	67,660
Change in net assets	3,459	(4,504)	(1,045)
Net assets beginning of year	2,138	(1,877)	261
Net assets end of year	5,597	(6,381)	(784)

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2005

	School Nutrition	Child Care	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	103,137	12,096	115,233
Cash payments to employees for services	(65,225)	(16,600)	(81,825)
Cash payments to suppliers for goods or services	(88,028)	-	(88,028)
Net cash provided by (used in) operating activities	(50,116)	(4,504)	(54,620)
Cash flows from non-capital financing activities:			
State grants received	2,045	-	2,045
Federal grants received	54,471	-	54,471
Net cash provided by non-capital financing activities	56,516	-	56,516
Cash flows from investing activities:			
Interest on investments	117	-	117
Net increase (decrease) in cash and cash equivalents	6,517	(4,504)	2,013
Cash and cash equivalents beginning of year	275	(1,877)	(1,602)
Cash and cash equivalents end of year	<u>6,792</u>	<u>(6,381)</u>	<u>411</u>
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(64,201)	(4,504)	(68,705)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	196	-	196
Commodities used	11,027	-	11,027
Decrease in inventory	2,863	-	2,863
(Decrease) in accrued payroll and benefits	(1)	-	(1)
	<u>(50,116)</u>	<u>(4,504)</u>	<u>(54,620)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	6,792	-	6,792
Current liabilities:			
Interfund payable	-	(6,381)	(6,381)
Total	<u>6,792</u>	<u>(6,381)</u>	<u>411</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received federal commodities valued at \$11,027.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts
	Scholarships
	\$
Additions:	
Local sources:	
Miscellaneous	2,500
Total additions	2,500
Deductions:	
Support services:	
Scholarships	2,500
Total deductions	2,500
Change in net assets	-
Net assets beginning of year	-
Net assets end of year	-

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The Nora Springs-Rock Falls Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Nora Springs and Rock Falls, Iowa, and agricultural area in Cerro Gordo, Mitchell and Floyd Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Nora Springs-Rock Falls Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Nora Springs-Rock Falls Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Floyd and Cerro Gordo Counties Assessor Conference Boards.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's major proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also maintains a Child Care Fund.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional programs function exceed the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2004, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Amortized Cost

Diversified Portfolio \$548,052

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	38,075	-	-	38,075
Capital assets being depreciated:				
Improvements other than buildings	372,904	-	-	372,904
Buildings	3,302,561	-	-	3,302,561
Furniture and Equipment	1,300,457	35,444	-	1,335,901
Total capital assets being depreciated	4,975,922	35,444	-	5,011,366
Less accumulated depreciation for:				
Improvements other than buildings	293,243	11,826	-	305,069
Buildings	1,224,944	66,679	-	1,291,623
Furniture and Equipment	1,091,678	99,133	-	1,190,811
Total accumulated depreciation	2,609,865	177,638	-	2,787,503
Total capital assets being depreciated, net	2,366,057	(142,194)	-	2,223,863
Governmental activities, capital assets, net	2,404,132	(142,194)	-	2,261,938

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities				
Furniture and Equipment	9,657	-	7,298	2,359
Less accumulated depreciation	<u>8,134</u>	<u>196</u>	<u>7,298</u>	<u>1,032</u>
Business type activities capital assets, net	<u>1,523</u>	<u>(196)</u>	<u>-</u>	<u>1,327</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Student transportation

Unallocated

26,383

151,255

177,638

Business type activities:

Food service operations

196

(4) Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rate %	Principal \$	Interest \$	Total \$
2006	5.20	85,000	36,920	121,920
2007	5.25	90,000	32,500	122,500
2008	5.30	90,000	27,775	117,775
2009	5.40	95,000	23,005	118,005
2010	5.50	100,000	17,875	117,875
2011	5.50	110,000	12,375	122,375
2012	5.50	<u>115,000</u>	<u>6,325</u>	<u>121,325</u>
Total		<u>685,000</u>	<u>156,775</u>	<u>841,775</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	General Obligation Bonds	Capital Loan Notes	Total
Balance beginning of year	765,000	35,000	800,000
Additions	-	-	-
Reductions	<u>80,000</u>	<u>35,000</u>	<u>1,150,000</u>
Balance end of year	<u>\$685,000</u>	<u>-</u>	<u>685,000</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$133,315, \$121,828, and \$117,751 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$124,153 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least 55 years but not more than 63 years of age and must have completed at least 15 years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee consists of three parts. One, 100% of the difference between their current Salary Schedule A and the salary for B.A. step 3. Eligible support staff and administrators will receive 30% of their current contract rate. Two, \$100 for each year of service to the District over 15 years. Three, A wellness incentive of 10% of Item One if the employee has accumulated the maximum number of sick leave days at time of early retirement. The District paid \$15,865 in early retirement benefits during the year ended June 30, 2005.

(9) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity and provides monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/05	6/30/06	<u>\$188,864</u>	<u>4,111</u>	<u>188,000</u>	<u>36</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2005.

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2004-05A	3.000%	2.463%
2005-06A	3.500%	3.903%

(10) Capital Loan Notes

The District issued \$200,000 of Capital Loan Notes for the construction of a new bus barn. Payments were made from the District's Physical Plant and Equipment Levy. These notes were fully retired in Fiscal 2005.

(11) Risk Management

The District was a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization until June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$6,301 which is recorded as a liability as of June 30, 2005.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(12) Financial Condition

The District's Enterprise Fund - Child Care had a deficit fund balance of \$6,381 at June 30, 2005.

(13) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Enterprise Fund - Child Care	<u>\$6,381</u>

This is the result of a cash deficit in a joint checking account.

Required Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	2,178,352	115,350	2,293,702	2,119,311	2,119,311	174,391
State sources	1,791,077	2,045	1,793,122	1,833,524	1,833,524	(40,402)
Federal sources	109,770	54,471	164,241	166,000	166,000	(1,759)
Total receipts	4,079,199	171,866	4,251,065	4,118,835	4,118,835	132,230
Disbursements:						
Instruction	2,477,300	-	2,477,300	2,514,000	2,514,000	36,700
Support services	1,264,529	-	1,264,529	1,520,500	1,520,500	255,971
Non-instructional programs	-	169,853	169,853	124,849	159,849	(10,004)
Other expenditures	402,635	-	402,635	299,759	479,759	77,124
Total disbursements	4,144,464	169,853	4,314,317	4,459,108	4,674,108	359,791
Excess (deficiency) of receipts over (under) disbursements	(65,265)	2,013	(63,252)	(340,273)	(555,273)	492,021
Other financing sources (uses)	5,938	-	5,938	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(59,327)	2,013	(57,314)	(340,273)	(555,273)	492,021
Balance beginning of year	646,892	(1,602)	645,290	726,188	726,188	3,347,565
Balance end of year	587,565	411	587,976	385,915	170,915	3,839,586

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	4,079,199	19,149	4,098,348
Expenditures	4,144,464	(328,739)	3,815,725
Net	(65,265)	347,888	282,623
Other financing sources (uses)	5,938	-	5,938
Beginning fund balances	646,892	(294,506)	352,386
Ending fund balances	587,565	53,382	640,947

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	171,866	11,027	182,893
Expenditures	169,853	14,085	183,938
Net	2,013	(3,058)	(1,045)
Beginning fund balances	(1,602)	1,863	261
Ending fund balances	411	(1,195)	(784)

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$215,000.

During the year ended June 30, 2005, disbursements in the non-instructional programs function exceeded the amount budgeted. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	35,671	27,802	18,330	81,803
Property tax receivable:				
Current year	999	-	1,403	2,402
Succeeding year	75,000	-	88,519	163,519
Total assets	<u>111,670</u>	<u>27,802</u>	<u>108,252</u>	<u>247,724</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	75,000	-	88,519	163,519
Fund equity:				
Unreserved fund balances	36,670	27,802	19,733	84,205
Total liabilities and fund equity	<u>111,670</u>	<u>27,802</u>	<u>108,252</u>	<u>247,724</u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	60,374	-	86,508	146,882
Other	4,652	106,084	1,943	112,679
State sources	57	-	80	137
Total revenues	65,083	106,084	88,531	259,698
Expenditures:				
Instruction:				
Co-curricular instruction	-	95,403	-	95,403
Support services:				
Instructional staff support	15,865	-	-	15,865
Plant operation and maintenance	54,729	-	34,857	89,586
Other expenditures:				
Facilities acquisition and construction	-	-	2,706	2,706
Total expenditures	70,594	95,403	37,563	203,560
Excess (deficiency) of revenues over (under) expenditures	(5,511)	10,681	50,968	56,138
Other financing (uses):				
Operating transfers out	-	-	(35,854)	(35,854)
Total operating financing (uses)	-	-	(35,854)	(35,854)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(5,511)	10,681	15,114	20,284
Fund balances beginning of year	42,181	17,121	4,619	63,921
Fund balances end of year	36,670	27,802	19,733	84,205

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	-	16,127	16,127	-
Basketball	770	11,627	11,897	500
Golf	5	4,293	4,248	50
Track	5	7,435	7,390	50
Football	663	7,240	7,414	489
Baseball	200	4,506	4,106	600
Wrestling	5	10,268	9,363	910
Volleyball	5	7,234	6,181	1,058
Softball	380	2,882	2,662	600
Yearbook	374	6,639	2,783	4,230
Drama Jox	258	3	-	261
Student Council	1,222	9,202	8,876	1,548
Class of 2005	385	646	1,031	-
Class of 2006	1,913	-	1,235	678
Class of 2007	3,086	30	-	3,116
Class of 2008	3,111	58	44	3,125
Class of 2009	1,301	7,777	6,533	2,545
Class of 2010	-	678	-	678
Class of 2011	-	1,364	-	1,364
Class Composite Picture	279	79	-	358
Students Jump for Heart	1,149	15	-	1,164
Drama	1,344	4,643	3,869	2,118
Vocal Fund Raising	392	105	-	497
Band Fund Raising	274	3,233	1,644	1,863
Grand total	17,121	106,084	95,403	27,802

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

Governmental Funds

	Years ended June 30,			
	2005	2004	2003	2002
	\$	\$	\$	\$
Local sources:				
Local tax:				
Property tax	1,404,583	1,480,964	1,459,337	1,313,618
Local option sales tax	280,309	195,894	-	-
Mobile home tax	556	3,221	3,605	3,278
	<u>1,685,448</u>	<u>1,680,079</u>	<u>1,462,942</u>	<u>1,316,896</u>
State sources:				
State foundation aid	1,504,955	1,408,709	1,518,424	1,534,995
School Improvement and Technology	-	-	-	9,567
AEA flow through	124,135	125,753	135,602	137,134
Instructional support	17,826	18,158	20,153	22,626
Educational Excellence Program:				
Phase I	27,881	26,837	27,673	27,673
Phase II	34,049	34,535	36,477	38,241
Phase III	-	-	9,024	21,853
Non-public transportation aid	3,400	3,367	5,650	3,404
Vocational education aid	1,362	1,334	2,770	1,891
Iowa Early Intervention Block Grant	23,686	28,038	25,158	31,272
Revenue in lieu of taxes - military credit	1,336	1,368	1,448	1,425
Evaluator training	-	1,000	2,000	-
Teacher mentoring program	13,000	5,200	3,900	2,600
Teacher quality/salary improvement	39,447	35,669	31,906	32,089
	<u>1,791,077</u>	<u>1,689,968</u>	<u>1,820,185</u>	<u>1,864,770</u>
Federal sources:				
Title I Grants to Local Education Agencies	40,198	43,779	41,630	34,539
Class Size Reduction	-	-	-	8,747
Improving Teacher Quality - Grants to States	12,871	12,817	14,494	-
Innovative Education Program Strategies	1,658	2,037	2,317	3,264
Safe and Drug Free Schools - States Grant	-	-	3,740	2,497
Special Education - Grants to states	10,632	17,128	12,101	6,152
Technology Literacy Challenge Fund Grant	-	-	-	28,511
Rural Education Achievement Program	41,657	39,922	36,314	-
Grants for Assessments and Related Activities	2,754	2,262	2,295	-
	<u>109,770</u>	<u>117,945</u>	<u>112,891</u>	<u>83,710</u>
Total	<u>3,586,295</u>	<u>3,487,992</u>	<u>3,396,018</u>	<u>3,265,376</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

To the Board of Education of the
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Nora Springs-Rock Falls Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 9, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nora Springs-Rock Falls Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nora Springs-Rock Falls Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Nora Springs-Rock Falls Community School District and other parties to whom Nora Springs-Rock Falls Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Nora Springs-Rock Falls Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

August 9, 2004

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

05-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

05-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-II-B Certified Budget - Disbursements for the year ended June 30, 2005, exceeded the amended certified budget amounts in the non-instructional programs function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

05-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 05-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 05-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 05-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 05-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 05-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 05-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- 05-II-K Financial Condition - We noted that the Enterprise Fund - Child Care had a deficit balance of \$6,381 at June 30, 2005.
- Recommendation - We recommend that the District investigate alternatives to bring this fund into a positive financial position.
- Response - We are in the third year of operation and are still exploring various means of generating a profit.
- Conclusion - Response accepted.